

## Local Option Income Taxes

Cheryl Musgrave Commissioner October 30, 2008

Indiana Department of Local Government Finance 10/30/2008

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| ■ COIT County Rate  | 1.00%       |
|---|-------------|
| <ul> <li>COIT Certified Distribution for 2009 is</li> </ul> | \$9,466,679 |
| <ul> <li>Distribution to County</li> </ul>                  | \$4,326,173 |
| <ul> <li>Distribution to Townships</li> </ul>               | \$ 224,405  |
| <ul> <li>Distribution to Cities and Towns</li> </ul>        | \$4,320,301 |
| <ul> <li>Distribution to Other Units*</li> </ul>            | \$ 595,800  |
|   |             |

■ CEDIT County Rate

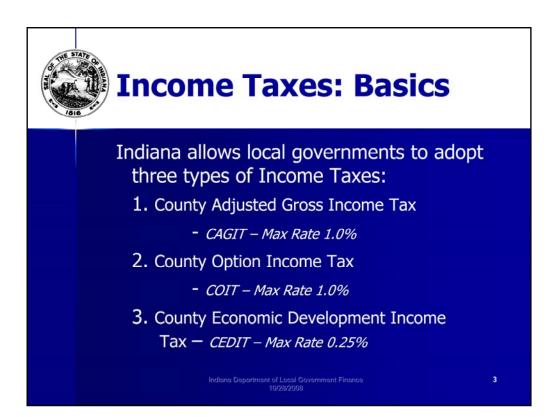
0.25%

CEDIT used entirely for Homestead Credits

Amount for 2009 Homestead Credits \$2,642,997

\* Libraries

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What must Grant County do to offset the impact of the Circuit Breaker?

Budget/services management should be part of this answer.



### **Income Taxes - Continued**

- Each type of Income Tax has a different purpose:
  - CAGIT dedicates 25% of total revenue toward property tax replacement credits, including taxes levied by schools. Remaining 75% is distributed to local governments excluding schools
  - COIT is used for local governments and not shared with schools
  - CEDIT is primarily used for economic development, debt service, capital projects and homestead credit.

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### **Income Taxes - Continued**

- Characteristics of Traditional Income Taxes
  - Local Governments can diversify their revenue sources
  - Reduce property tax burden
  - Larger tax "base"
  - Not hampered by property tax collection delays
  - Not subject to circuit breaker credit
  - Uses are more flexible than other sources of revenues

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# **Income Taxes - Continued**

- Characteristics of New LOITs
  - Revenue is in addition to existing income taxes
  - Outside of levy controls
  - Included for calculation of other revenues distributed with property taxes
  - Three choices how revenue will be used
  - Either choice reduces the property tax burden throughout the county and reduces lost revenue due to circuit breakers

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- Each tax is distributed differently
  - CAGIT is distributed semi-annually on May 1 and November 1
    - Quarterly distributions are available for counties with populations between 145K and 148K
  - COIT is distributed monthly
  - CEDIT is distributed semi-annually on May 1 and November 1
    - Quarterly distributions are available for counties with populations between 145K and 148K
    - Grant County distribution based on levies

Property tax is normally distributed twice annually 51 days after the due date.



# **Local Option Income Taxes** – *LOIT's*

- Several LOIT types may be adopted in addition to CAGIT, COIT or CEDIT
- Three major types of LOITs:
  - A. Levy Growth Replacement
  - B. Property Tax Relief
  - C. Public Safety

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- Levy Growth Replacement (Option A)
  - Funds growth in maximum levies for all levy controlled funds
- LOIT Property tax relief (Option B)
  - May provide additional homestead credits or PTRC
  - Counties may adopt without another LOIT
- Public Safety (Option C)
  - May be used for any public safety costs as defined in I.C. 6-3.5-1.1-25
  - Allocated to "municipalities" (Not townships, schools, or other municipalities)
  - Must be in addition to tax relief <u>or</u> operating rate



- Substitutes for growth in maximum levy
- Rate is 0.05% to 1.0%
  - Actual rate is calculated by the DLGF
- Rate is imposed for 2 years
  - First year collects twice the needed amounts to fund a County Stabilization Fund maintained by County Auditor
- Cannot be used to pay debt service or lease payments



- Rate adopted by council in increments of 0.05% to 1.0%
- May be used three ways:
  - PTRC at uniform rate through county
  - PTRC at uniform rate on only qualified residential property in the county
  - Increase homestead credit %



- In addition to other homestead credits and deductions
- LOIT revenue is considered as property tax revenue for calculating other revenues distributed using property tax levies
- Rate can be imposed, increased, decreased, or rescinded by county council (CAGIT counties) or income tax council (COIT counties)



- Rate is 0.05% to 0.25% for a county or municipality
- Revenue distributed only to cities, towns, and counties
- May be used according to I.C. 6-3.5-1.1-25 any public safety purpose
- Rate may be imposed or rescinded at the same time and manner as imposing or increasing the rate
- Must be combined with either levy growth LOIT or property tax relief LOIT or both



# **How to Adopt a LOIT**

- Requires the adoption of an ordinance
- Simple majority
- Must indicate the type of LOIT, rate, and effective date
- COIT counties local income tax council (# of votes based on % of units population in county)
- CAGIT counties County Council

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| Adoption Date                             | Effective Date | Tax Distribution  Date |
|---|----------------|------------------------|
| After Oct. 15 & Before Nov. 16, 2008      | Dec. 1, 2008   | Jan. 2009              |
| After Nov. 15, 2008 & Before Jan. 1, 2009 | Jan. 1, 2009   | Jan. 2009              |
| After Jan. 1, 2009*                       | Oct. 1, 2009   | Jan. 2010              |

<sup>\* 2009</sup> and thereafter, LOIT adoptions or rate changes must be done between March 31 and July 31 of each year. The effective date is Oct. 1 of the year in which the adoption is made.



# **Impact for Grant County**

#### Estimates are based on the 2009 certified distribution.

| Туре                                     | Minimum           | Maximum             |
|--|-------------------|---------------------|
| Levy Growth<br>Replacement<br>(Option A) | \$473,334 (0.05%) | \$9,466,679 (1.0%)  |
| Property Tax Relief<br>(Option B)        | \$473,334 (0.05%) | \$9,466,679 (1.0%)  |
| Public Safety<br>(Option C)              | \$473,334 (0.05%) | \$2,366,662 (0.25%) |

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### **For More Information**

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